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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

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AUG 19 2008

Washington, DC

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Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 7/1/2007 AND ENDING 6/30/2008  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **MEDIOBANCA SECURITIES USA, LLC**

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

**565 5TH AVENUE**

(No. and Street)

**NEW YORK****NY****10017**

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

**PIERLUIGI GASTONE****212-991-4745**

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

**J.H. COHN LLP**

(Name - if individual, state last, first, middle name)

**1212 AVENUE OF THE AMERICAS****NEW YORK****NY****10036**

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☐ Certified Public Accountant  
☒ Public Accountant  
☐ Accountant not resident in United States or any of its possessions

PROCESSED

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

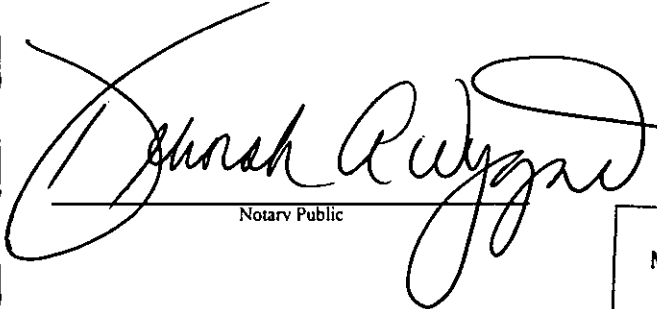
SEC 1410 (06-02)

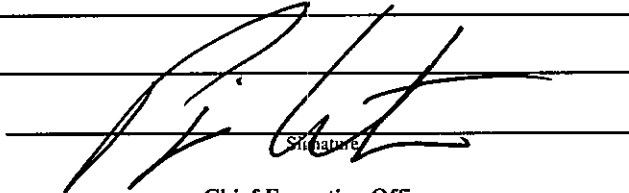
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## OATH OR AFFIRMATION

I, PIERLUIGI GASTONE, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of MEDIOBANCA SECURITIES USA, LLC, as of JUNE 30, 20 08, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

  
Notary Public

  
Signature  
Chief Executive Officer  
Title

DEBORAH A. WYGAND  
NOTARY PUBLIC, STATE OF NEW YORK  
No. 01WY6077601  
QUALIFIED IN NASSAU COUNTY  
MY COMMISSION EXPIRES JULY 15, 20 10

This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Cash Flows.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

**Mediobanca Securities USA, LLC**  
**(A Limited Liability Company)**

**Report on Financial Statements**

**Year Ended June 30, 2008**

**SEC Mail Processing**  
Section

**AUG 19 2008**

**Washington, DC**  
111

# MEDIOBANCA SECURITIES USA, LLC

Facing Page

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## Report of Independent Public Accountants

To the Member  
Mediobanca Securities USA, LLC

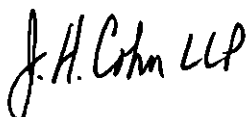
We have audited the accompanying statement of financial condition of Mediobanca Securities USA, LLC (a limited liability company and wholly-owned subsidiary of Mediobanca - Banca di Credito Finanziario S.P.A) as of June 30, 2008, and the related statements of operations, changes in member's deficiency, changes in subordinated borrowings and cash flows for the year then ended that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Mediobanca Securities USA, LLC as of June 30, 2008, and its results of operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 10 to the financial statements, the Company is economically dependent on its Parent.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

 J.H. Cohn LLP

New York, New York  
August 14, 2008

MEDIOBANCA SECURITIES USA, LLC

STATEMENT OF FINANCIAL CONDITION  
JUNE 30, 2008

ASSETS

Cash	\$ 1,482,362
Commissions receivable from Parent	102,349
Accounts receivable	53,000
Prepaid expenses	11,444
Furniture, equipment and leasehold improvements, net of depreciation and amortization	219,382
Security deposit	37,652
Total	<u>\$ 1,906,189</u>

LIABILITIES AND MEMBER'S DEFICIENCY

Liabilities:	
Subordinated borrowings payable to Parent	\$ 2,000,000
Accounts payable and accrued expenses	163,959
Accrued payroll and related benefits	822,876
Interest payable to Parent	23,371
Total	<u>3,010,206</u>
Commitments	
Member's deficiency	<u>(1,104,017)</u>
Total	<u>\$ 1,906,189</u>

See Notes to Financial Statements.

# MEDIOBANCA SECURITIES USA, LLC

## STATEMENT OF OPERATIONS YEAR ENDED JUNE 30, 2008

Revenue:	
Commission income	\$ 1,277,868
Research fee income	379,159
Other income	35,000
Total	<u>1,692,027</u>
Expenses:	
Compensation and benefits	1,191,478
Stock-based compensation	130,272
Rent	166,882
Professional fees	115,640
Travel and entertainment	130,106
Market data research	28,156
Depreciation and amortization	61,230
Regulatory fees	4,660
Communications	70,965
Insurance	23,317
Office	6,366
Interest	112,118
Other	60,810
Total	<u>2,102,000</u>
Net loss	<u>\$ (409,973)</u>

See Notes to Financial Statements.

MEDIOBANCA SECURITIES USA, LLC

STATEMENT OF CHANGES IN MEMBER'S DEFICIENCY  
YEAR ENDED JUNE 30, 2008

Balance, July 1, 2007	\$ (824,316)
Net loss	(409,973)
Stock-based compensation	<u>130,272</u>
Balance, June 30, 2008	<u>\$ (1,104,017)</u>

See Notes to Financial Statements.

MEDIOBANCA SECURITIES USA, LLC

STATEMENT OF CHANGES IN SUBORDINATED BORROWINGS  
YEAR ENDED JUNE 30, 2008

Subordinated borrowings at July 1, 2007	\$ -
Increase:	
Approval to classify borrowings from Mediobanca - Banca di Credito Finanzario S.P.A as subordinated	<u>2,000,000</u>
Subordinated borrowings at June 30, 2008	<u>\$ 2,000,000</u>

See Notes to Financial Statements.

# MEDIOBANCA SECURITIES USA, LLC

## STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2008

Operating activities:	
Net loss	\$ (409,973)
Adjustments to reconcile net loss to net cash used in operating activities:	
Stock-based compensation	130,272
Depreciation and amortization	61,230
Changes in operating assets and liabilities:	
Commissions receivable from Parent Company	(102,349)
Accounts receivable	(53,000)
Prepaid expenses	12,720
Security deposit	(1,000)
Accounts payable and accrued expenses	(17,430)
Accrued payroll and related benefits	200,894
Interest payable to Parent	(14,762)
Net cash used in operating activities	<u>(193,398)</u>
Investing activities:	
Purchases of furniture, equipment and leasehold improvements	(13,103)
Financing activities:	
Repayment of advances from Parent	<u>(257,149)</u>
Net decrease in cash	(463,650)
Cash, beginning of year	<u>1,946,012</u>
Cash, end of year	<u><u>\$ 1,482,362</u></u>
Supplemental disclosures of cash flow data:	
Interest paid	<u><u>\$ 126,880</u></u>

See Notes to Financial Statements.

# MEDIOBANCA SECURITIES USA, LLC

## NOTES TO FINANCIAL STATEMENTS

### Note 1 - Business and summary of significant accounting policies:

#### Business:

Mediobanca Securities USA, LLC (the "Company"), a wholly-owned subsidiary of Mediobanca - Banca di Credito Finanziario S.P.A. (the "Parent"), was formed as a Delaware limited liability company on August 23, 2006. The Company registered with the Securities and Exchange Commission (the "SEC"), the Financial Industry Regulatory Authority (the "FINRA"), and the Securities Industry Protection Corporation ("SIPC") to conduct its operations as an introducing broker of equity securities that will solicit business primarily in Italian securities traded on the Milan Stock Exchange, and may occasionally seek business for stocks traded on European and other exchanges.

The Company has an agreement (the "Agreement") with the Parent, in which the Parent will act as the Company's clearing broker dealer. The Parent is a member of various stock exchanges and is subject to the rules and regulations of such organizations.

The accompanying financial statements have been prepared from the separate records maintained by the Company and, due to certain transactions and agreements with affiliated entities, such financial statements may not necessarily be indicative of the financial condition that would have existed or the results that would have been obtained from operations had the Company operated as an unaffiliated entity.

The Company solicits and accepts orders from its customers for the purchase and sale of foreign securities, primarily Italian securities, with such transactions being executed by the Parent. The clearance and settlement of the trades occur through a direct transfer of funds and securities between the Company's customers and the Parent. Accordingly, the Company is exempt from registration for foreign broker-dealers transacting foreign securities in the United States with United States customers pursuant to the provisions of Rule 15a-6(a)(3).

For the period from its inception (August 23, 2006) through June 30, 2007, the Company presented its financial statements as those of a Development Stage Enterprise as its brokerage activities had not commenced.

Effective July 18, 2007, the Company received approval from the SEC and FINRA to operate as a broker-dealer in securities.

#### Use of estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

# **MEDIOBANCA SECURITIES USA, LLC**

## **NOTES TO FINANCIAL STATEMENTS**

### **Note 1 - Business and summary of significant accounting policies (continued):**

#### **Securities transactions and valuations:**

Securities transactions and related commission revenue and expenses associated with customer securities transactions are recorded on a trade-date basis.

#### **Research fee income:**

Revenue from research fees are recognized as the services are performed or delivered. The Company assesses the financial strength of its customers. Periodically, the Company evaluates its accounts receivable and provides for an allowance for doubtful accounts equal to the estimated uncollectible accounts. The Company's estimate is based on a review of the current status of the individual accounts receivable. At June 30, 2008, no allowance for doubtful accounts was deemed necessary.

#### **Cash equivalents:**

Cash equivalents, if any, are investments in money market funds and investments with maturities of 90 days or less when purchased.

#### **Furniture, equipment and leasehold improvements:**

Furniture and office equipment are carried at cost. Depreciation is provided using the straight-line method over their estimated useful lives of five to seven years.

Leasehold improvements are carried at cost. Amortization is provided using the straight-line method over the lease agreement of four years.

#### **Income taxes:**

The Company has elected to be taxed as a corporation and files separate income tax returns. The Company accounts for income taxes pursuant to the asset and liability method which requires deferred tax assets and liabilities to be computed for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the temporary differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

#### **Stock-based compensation:**

The Parent allocates to the Company its portion of stock-based compensation. The fair value-based method of accounting prescribed by Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share Based Payment" is used for the employee stock option program. Under SFAS 123R, compensation expense related to the stock option program is determined based on the estimated fair value of options granted.

# MEDIOBANCA SECURITIES USA, LLC

## NOTES TO FINANCIAL STATEMENTS

### Note 1 - Business and summary of significant accounting policies (concluded):

#### Credit risk:

The Company is exposed to off-balance sheet risk of loss on transactions during the period from the trade date to the settlement date, which is generally three business days.

The Company maintains cash deposits with banks and brokers. At times, such deposits exceed Federal or other applicable insurance limits. As of June 30, 2008, the Company had cash on deposits that exceeded insured limits by approximately \$1,460,000.

### Note 2 - Related party transactions:

The Company has commission and expense sharing agreements with the Parent. These agreements provide for 60% of the commission generated by the Company to be allocated to the Parent, with the residual 40% allocated to the Company. The 60% allocation of commissions to the Parent serves as reimbursement for operating expenses relating to the Company's broker-dealer activities including transaction clearance and settlement, research, administration services and information services. As the customers are customers of the Parent, and predominantly conduct their business directly with the Parent, the Company records commission income on a net basis. Amounts due from Parent relating to these commissions have no specified due date.

### Note 3 - Other income:

During the year ended June 30, 2008, upon completion and approval of the merger between the National Association of Securities Dealers, Inc. ("NASD") and the New York Stock Exchange, FINRA (the new combined entity) sent a one-time special payment of \$35,000 to all NASD members who were members in good standing at the time of the merger.

### Note 4 - Furniture, equipment and leasehold improvements:

Furniture, equipment and leasehold improvements consist of the following:

	Estimated Useful Lives	Amount
Office equipment	5	\$119,429
Office furniture	7	44,697
Leasehold improvements	4	<u>123,820</u>
		287,946
Less accumulated depreciation and amortization		<u>(68,564)</u>
Total		<u>\$219,382</u>

# MEDIOBANCA SECURITIES USA, LLC

## NOTES TO FINANCIAL STATEMENTS

### Note 5 - Loan payable to Parent:

In March 2007, the Parent loaned the Company \$2,000,000, which bears interest at 1% above the Federal Fund rate per annum and is due in March 2010. The loan was approved by the FINRA as a subordinated loan pursuant to the provisions of 17 CFR 240.15C3-1d for the computation of the Company's net capital requirements. Interest expense on the loan for the year ended June 30, 2008 was \$112,118. As of June 30, 2008, \$23,371 of interest was unpaid.

### Note 6 - Income taxes:

There is no current provision for income taxes due to the Company sustaining a loss for the year ended June 30, 2008. At June 30, 2008, deferred tax assets of approximately \$641,000 result primarily from Federal, state and city net operating loss carryforwards of approximately \$199,000 expiring through 2028, unamortized deferred organization and start-up costs of approximately \$1,002,000, non-deductible interest of approximately \$112,000 and stock-based compensation expense of approximately \$130,000 the benefit of which will not be realized for tax purposes until the granted options are exercised. Due to uncertainties related to, among other things, the extent and timing of future taxable income, the Company recorded a valuation allowance for the full amount of the deferred tax assets at June 30, 2008.

As a result of the increase in the valuation allowance of \$159,000 during 2008, there are no credits for income taxes reflected on the accompanying statement of operations to offset pretax losses.

### Note 7 - Commitments:

#### Leases:

The Company occupies office space under a four year lease agreement expiring on June 1, 2011.

The lease requires the following minimum payments in each of the three years subsequent to June 30, 2008:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2009	\$146,926
2010	150,420
2011	<u>137,885</u>
Total	<u>\$435,231</u>

Total rent for the office space for the year ended June 30, 2008 was \$166,882.

# MEDIOBANCA SECURITIES USA, LLC

## NOTES TO FINANCIAL STATEMENTS

### Note 7 - Commitments (concluded):

#### Employment agreement:

The Company has an employment agreement with an executive that provides for a base salary of \$180,000 and a severance package of up to \$1,280,000.

### Note 8 - Employee stock option plan:

On May 18, 2007, certain employees of the Company received options to purchase 115,000 shares of common stock of the Parent, in accordance with its stock option plan. The exercise price of the options, which become fully vested after a 36 month period ("cliff vest"), was equal to the market value of the Parent's common stock on the date of grant in the amount of \$17.34 per share. The options granted expire on May 17, 2015. The Parent has valued the options using the Black-Scholes option pricing model (the "Black-Scholes Model"). The aggregate value of \$344,500 will be charged to operations by the Company over the vesting period with the credit to member's deficiency. For the year ended June 30, 2008, \$130,272 was charged to operations. At June 30, 2008, compensation cost of \$214,228 had not yet been recognized on nonvested awards. The amount will be charged to operations over the remaining vesting period of 21 months. As of June 30, 2008, all options remained outstanding and none were exercisable.

The Company granted additional options to purchase 100,000 shares of common stock of the Parent to certain employees of the Company on July 1, 2008. These options will expire on June 16, 2016. The exercise price of the options, which become fully vested after 36 months, was \$11.04. The aggregate value of these options, which was calculated by the Company using the Black-Scholes Model, was determined to be \$207,323 and will be charged to the Company's operations over the vesting period with the credit to member's deficiency. The vesting period for these options commences on July 1, 2008. Accordingly, the Company incurred no charges for these options during the year ended June 30, 2008.

The following table illustrates the assumptions utilized when valuing the options grants using the Black-Scholes Model.

	<u>Grant Date</u>	
	<u>July 1, 2008</u>	<u>May 18, 2007</u>
Expected volatility	25.30%	17.50%
Expected dividends	6.19%	4.57%
Expected term (in years)	5.5	5
Risk-free rate	4.41%	4.50%

The Company does not expect any forfeitures.

## MEDIOBANCA SECURITIES USA, LLC

### NOTES TO FINANCIAL STATEMENTS

**Note 9 - Employee benefit plan:**

Effective August 23, 2006, the Company established a 401(k) profit sharing plan, which allows for contributions by employees up to a defined amount of the employees' compensation, subject to statutory limitations. For plan years beginning on and after July 1, 2007, the Company will contribute 3% of the participating employees' compensation. Employer contributions for the year ended June 30, 2008 were \$88,091.

**Note 10- Economic dependency:**

As shown in the accompanying financial statements, at June 30, 2008, the Company had a member's deficiency of \$1,104,017. The Parent is committed to support the Company in obtaining additional financing as necessary to meet its obligations at least through July 1, 2009. Accordingly, the Company is economically dependent on its Parent in order to continue its operations.

**Note 11- Net capital requirement:**

The Company is subject to the SEC uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At June 30, 2008, the Company had net capital of \$472,156 which was \$345,880 in excess of its calculated minimum net capital of \$126,276. The Company's net capital ratio was 2.14 to 1.

**Note 12- Indemnifications:**

In the normal course of its business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. The Company also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including subcustodians and third-party brokers, improperly execute transactions. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the accompanying financial statements for these indemnifications.

MEDIOBANCA SECURITIES USA, LLC

**SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER RULE 15c3-1  
OF THE SECURITIES AND EXCHANGE COMMISSION  
JUNE 30, 2008**

Net capital:	
Total member's deficiency	<u>\$ (1,104,017)</u>
Liabilities subordinated to claims of general creditors allowable in computation of net capital	<u>2,000,000</u>
Deduct nonallowable assets:	
Commissions from Parent	102,349
Accounts receivables	53,000
Prepaid expenses	11,444
Furniture, equipment and leasehold improvements, net of depreciation and amortization	219,382
Security deposit	37,652
Total	<u>423,827</u>
Net capital	<u>\$ 472,156</u>
Aggregate indebtedness:	
Total liabilities	\$ 3,010,206
Less: subordinated borrowings	<u>2,000,000</u>
Aggregate indebtedness	<u>\$ 1,010,206</u>
Computation of basic net capital requirement:	
Net capital requirement (greater of 12-1/2% of aggregate aggregate indebtedness or \$100,000 minimum dollar net capital requirement)	<u>\$ 126,276</u>
Excess of net capital	<u>\$ 345,880</u>
Excess net capital at 1,000%	<u>\$ 371,135</u>
Ratio of aggregate indebtedness to net capital	<u>2.14 to 1</u>

There is no material difference between the above computation and the computation included in the Company's corresponding unaudited FOCUS Report as of June 30, 2008.

See Report of Independent Public Accountants.

**MEDIOBANCA SECURITIES USA, LLC**

**SCHEDULE II – COMPUTATION FOR DETERMINATION OF  
RESERVE REQUIREMENTS AND INFORMATION RELATING TO  
POSSESSION OR CONTROL REQUIREMENTS UNDER RULE 15c3-3 OF THE  
SECURITIES AND EXCHANGE COMMISSION  
JUNE 30, 2008**

The Company claims exemption from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, in that the Company's activities are limited to those set forth in the conditions from exemptions appearing in paragraph (k)(2)(i) of the Rule.

See Report of Independent Public Accountants.

**Report of Independent Public Accountants on Internal Control  
Required by Securities and Exchange Commission Rule 17a-5**

To the Member  
Mediobanca Securities USA, LLC

In planning and performing our audit of the financial statements of Mediobanca Securities USA, LLC (the "Company") as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting ("internal control") as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11), and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

Making quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13

Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.


Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, the Company's practices and procedures, as described in the second paragraph of this report, were adequate at June 30, 2008 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

  
New York, New York  
August 14, 2008

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